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SUBJECT: U.S.-JAPAN BUSINESS COUNCIL: BILATERAL STRATEGIC
DIALOGUE KEY TO GLOBAL COMPETITIVENESS

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¶1. (SBU) The U.S. and Japan must build on their close economic relationship to become more competitive in the face of rapid developments in technology and the emergence of new global competitors, according to a new report "U.S.-Japan Economic Integration: Enhancing Competitiveness and Securing Our Future in Asia", issued by the U.S.-Japan Business Council (USJBC). Developing a high-standard U.S.-Japan economic partnership agreement, the USJBC argues in its recently released report, would be an effective way for both countries to increase their competitiveness in East Asia (the report specifically cites growing competition from China and India) and globally by better allowing U.S. and Japanese companies to boost productivity throughout their value chains; by enabling innovative companies in both countries to take advantage of economies of scale as they meet rising demand for their products/services; by becoming a catalyst for needed domestic economic reforms; and enabling the U.S. and Japan to take the lead jointly in shaping the emerging trade and economic architecture in Asia -- a step that would improve both countries' competitive positions vis-a-vis other economies.

¶2. (SBU) Meeting with econoffs, USJBC Economic Partnership Agreement (EPA) Task Force Chair and AFLAC Japan CEO Charles Lake and AFLAC Senior V.P. and Director for Governmental and Legal Affairs Andy Conrad acknowledged the low probability of the U.S. and Japan launching comprehensive free trade negotiations in the near term. They noted the report states "globalization fatigue" and an overcorrection to the focus on Japan in the eighties and nineties in the U.S., and the pressures of agricultural interests in Japan, as well as its dual economy and vertically-segmented policy making regime on top of the confused political outlook in Tokyo, make a free trade agreement/economic partnership agreement unlikely in the near future. Nevertheless, the scope of U.S.-Japan trade and other economic relations as well as evolving Trans-pacific dynamics leads the USJBC to suggest a building block approach through which the U.S. and Japan can prioritize elements of their strategic dialogue on trade-enhancing measures to enable firms to better compete in each others' markets, and thereby compete better regionally and globally. Citing Boeing as an example, Lake said many

manufacturers with operations in both Japan and the U.S. require a borderless supply chain to remain efficient and competitive in the global economy. Lake also noted information contained in the report showing the share of intra-regional trade in Asia has increased to levels almost commensurate with that among the EU economies; in contrast, the share of intra-regional trade in NAFTA is considerably less. He questioned how effective Japan has been in taking advantage of the growth in regional trade flows. Without more rapid and comprehensive reform, Japan might find itself sidelined in terms of regional economic integration.

13. (SBU) Lake said the USJBC timed the report to engage policymakers during the U.S. political transition and to spark calls for reform within the Japanese business community. He expressed concern that the slow pace of economic reform in Japan, as well as competing investment opportunities elsewhere, particularly from China, will continue to draw policymakers' attention away from the strategically important U.S.-Japan economic and trade relationship. The USJBC advocates a ratcheting up of the U.S.-Japan strategic dialogue and greater engagement with the Japanese business community to drive a more robust domestic reform agenda. To this end, the USJBC is promoting the report's recommendations in its discussions with senior government officials, the broader trade policy community, and the media.
SCHIEFFER